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Export Control Issues: Background

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Tiananmen Sanctions

- o The President stopped dual-use sales to Chinese military and police end-users in June 1989. This ban was formalized in the 1990-91 Foreign Relations Authorization Act (FRAA) and remains in effect.
- o The FRAA also suspends licenses for all U.S. Munitions List items (except commercial inertial navigation systems) and for satellites for launch from China, but provides for a national interest waiver by the President.
- o The U.S. received COCOM support to suspend further China-specific liberalization. We did not seek rollback of the China Green Line levels. This remains our policy now.

Proliferation Sanctions

- o On April 30, the President declined to waive sanctions suspending licenses for a Chinese satellite project, the DFH-3,
- o On June 16 the White House announced several actions that the U.S. would take because of concerns raised by China's missile proliferation policies and activities:
 - Sanctioning two Chinese firms, Great Wall Industry Corp. and CPMIEC, under U.S. law for their involvement in missile technology transfers to Pakistan;
 - No further approvals of licenses for export of U.S. commercial satellites, their components or associated technology for launch from China; and
 - Tighter restrictions on the sale to China of high-performance computers with CTP (Composite Theoretical Performance) ratings above 41 MTOPS (million theoretical operations per second).
- o The satellite and computer restrictions will remain in place until our concern that China adhere to accepted international nonproliferation standards is satisfactorily addressed.
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Chinese Reaction

- o The Chinese have complained that the satellite export restrictions violate consultation provisions of the U.S.-PRC commercial launch services agreement and maintain that U.S. export controls are responsible in part for their trade surplus with the U.S. (\$10.4 billion in 1990 and expected to rise to more than \$12 billion in 1991).
- We told the Chinese that the restrictions were taken for reasons outside the launch agreement, which clearly provides for them, and that the issues leading to the restrictions must be resolved at the highest levels of our governments.
- We maintain that Chinese-imposed limits on market access for foreign firms are primarily responsible for the trade imbalance. USTR initiated a Section 301 trade investigation to seek elimination of these measures.

COCOM Core List

- o The Core List exercise eliminated most of the China differential by raising the overall level of technology licensable to other controlled destinations. However, China retains some advantages compared to most destinations (including the USSR) in a few areas, including fiber optics.

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Hong Kong ICT Benefits

- o The U.S. has agreed to provide full 5(k) benefits to Hong Kong, including intra-COCOM trade privileges, provided we can reach agreement with HMG and the HKG on measures to assure that the HKG continues to exercise effective, independent control over sensitive exports. We are awaiting a reply from HMG.

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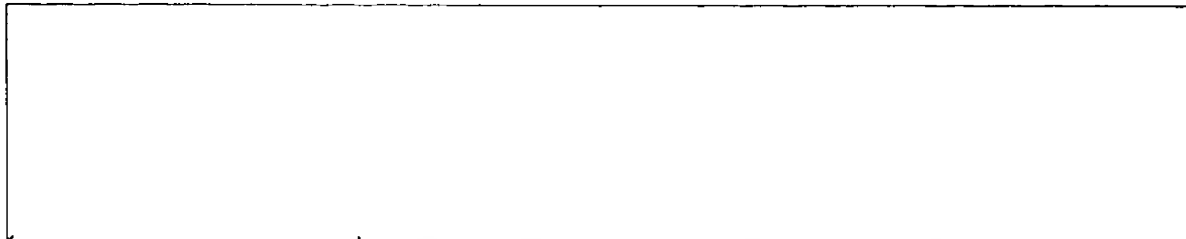
Export Control Issues: Talking Points

Computer and Satellite Sanctions

- o The U.S. remains committed to an open and mutually beneficial trade relationship with China. The President's decision to maintain China's MFN status -- despite Congressional opposition -- reflects his strong commitment to the relationship.
- o However, the President remains deeply troubled by China's proliferation policies and activities. He therefore authorized actions on June 16 that directly affect the licensing of high technology items to China, including export restrictions on high-performance computers and satellites and related technology for launch from China.
 - These measures will remain in place until our concerns that China adhere to accepted international nonproliferation standards are satisfactorily addressed.
- o If you agree to publicly adhere to MTCR Guidelines and privately offer assurances on missile transfers, particularly to Pakistan and Syria, we will commit to lift the restrictions on exports of high-performance computers and satellites imposed by the President in June.
- o The restrictions on satellite exports do not violate the provisions of our bilateral agreement on commercial launch services. They were taken for reasons outside the context of the agreement, which allows the U.S. to take any action on export licensing consistent with U.S. laws and regulations. We cannot resolve this issue under the launch agreement.

Sanctions Evidence

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U.S. law required that the sanctions be imposed on Great Wall Industry Corp. and CPMIEC based on this evidence.

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Export Controls as Barriers to Trade

- o U.S. controls on export of high technology goods and services have not served as a significant barrier to increased trade between our countries. China continues to enjoy broad access to U.S. technology. The items affected by these controls are relatively few in comparison to the range of products that the U.S. offers.
- o Our figures show that China is simply buying less from the U.S.
 - The percentage of licenses we have rejected has actually fallen in the last three years, from 1.75% to less than 0.1%. In 1990 U.S. license refusals accounted for only \$1.2 million out of \$1.5 billion in high-technology exports licensed.
 - At the same time, the nominal value of exports licensed to China plummeted between 1989 and 1990 from \$3.3 billion to \$1.5 billion.
- o Moreover, we have taken the initiative to devise appropriate safeguard regimes in a number of cases to allow exports that would otherwise be denied.
- o The U.S. believes that barriers to access by our exporters to your economy have a much greater and more immediate impact on our ability to export to China than these controls.

COCOM Core List Liberalization

- o Subject to the measures announced by the White House on June 16, the U.S. continues to support the sale of dual-use high technology items to China consistent with COCOM policy.
- o China will benefit from the overall reduction of the COCOM List. The new Core List significantly reduces controls on many items, including lower-end computers, electronics and avionics.
 - Although the overall liberalization will not reduce the level of access to technology that China now has, it will tend to reduce the differential that China enjoys compared with other countries.
 - As things currently stand, China will continue to have a slight preference in certain areas over most other countries, including the Soviet Union.
 - However, our overall policy on technology exchange will be affected by the extent to which China's policies on weapons proliferation conforms to international standards.

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China: Export Control Talking Points and Background

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